

**HULING COVE HOUSING CORPORATION
LEWES, DELAWARE**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2007 AND 2006

HULING COVE HOUSING CORPORATION

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INDEPENDENT AUDITORS' REPORT

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September 18, 2007

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

We have audited the accompanying statements of financial position of Huling Cove Housing Corporation (a non-profit organization) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huling Cove Housing Corporation as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2007 on our consideration of Huling Cove Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information shown on pages 11-18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

HULING COVE HOUSING CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

		<u>ASSETS</u>	
		<u>2007</u>	<u>2006</u>
CURRENT ASSETS			
1120	Cash and Cash Equivalents	\$ 6,158	\$ 21,606
1135	Accounts Receivable	471	2,533
1211	Prepaid Expenses	-	8,660
	TOTAL CURRENT ASSETS	<u>6,629</u>	<u>32,799</u>
FIXED ASSETS			
1490	Land, Building, and Equipment	2,692,619	2,692,619
1495	Accumulated Depreciation	<u>(2,085,929)</u>	<u>(1,991,828)</u>
	TOTAL FIXED ASSETS	<u>606,690</u>	<u>700,791</u>
OTHER ASSETS			
1191	Tenant Security Deposits	20,693	19,495
1310	Escrow Deposits	<u>72,353</u>	<u>132,480</u>
	TOTAL OTHER ASSETS	<u>93,046</u>	<u>151,975</u>
	TOTAL ASSETS	<u>\$ 706,365</u>	<u>\$ 885,565</u>
		<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES			
2110	Accounts Payable	\$ 14,343	\$ 12,298
2121	Accrued Payroll	3,716	3,740
2130	Interest Payable	9,038	9,688
2135	Accrued Vacation and Sick Pay	22,463	20,567
2170	Current Maturities of Long-Term Liabilities	<u>104,541</u>	<u>96,434</u>
	TOTAL CURRENT LIABILITIES	<u>154,101</u>	<u>142,727</u>
LONG-TERM LIABILITIES			
2300	Tenant Security Deposits Payable	20,693	19,495
2310	Note Payable	216,367	176,800
2320	Mortgages Payable, Net of Current Maturities	<u>1,257,572</u>	<u>1,362,113</u>
	TOTAL LONG-TERM LIABILITIES	<u>1,494,632</u>	<u>1,558,408</u>
	TOTAL LIABILITIES	1,648,733	1,701,135
NET ASSETS			
4100	Unrestricted Deficit	<u>(942,368)</u>	<u>(815,570)</u>
	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 706,365</u>	<u>\$ 885,565</u>

The accompanying notes are an integral part of these financial statements.

HULING COVE HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
<i>POTENTIAL RENT REVENUE:</i>		
5120 Rent Revenue	\$ 209,024	\$ 201,109
5121 Tenant Assistance Payments	<u>287,592</u>	<u>288,611</u>
Total Potential Rent Revenue	496,616	489,720
5220 Vacancies	<u>(15,551)</u>	<u>(10,248)</u>
Net Rent Revenue	<u>481,065</u>	<u>479,472</u>
 <i>FINANCIAL REVENUE:</i>		
Revenue from Investments:		
5410 Project Operations	299	434
5430 Residual Receipts	2,852	4,002
5440 Reserve for Replacement	<u>105</u>	<u>223</u>
Total Financial Revenue	<u>3,256</u>	<u>4,659</u>
 <i>OTHER REVENUE:</i>		
5990 Other Revenue - Excess Utilities, etc.	<u>1,837</u>	<u>5,157</u>
Total Other Revenue	<u>1,837</u>	<u>5,157</u>
 TOTAL REVENUE	<u>486,158</u>	<u>489,288</u>
 EXPENSES		
<i>ADMINISTRATIVE EXPENSES:</i>		
5610 Advertising	310	-
6320 Management Fees	37,008	37,008
6350 Audit Expense	6,710	5,835
6360 Telephone and Answering Service	3,290	3,083
6390 Miscellaneous	9,070	5,364
9999 Bad Debts	<u>963</u>	<u>-</u>
Total Administrative Expenses	<u>57,351</u>	<u>51,290</u>
 <i>UTILITIES EXPENSES:</i>		
6450 Electricity	76,759	60,705
6451 Water	<u>22,059</u>	<u>19,750</u>
Total Utilities Expenses	<u>98,818</u>	<u>80,455</u>
 <i>OPERATING AND MAINTENANCE EXPENSES:</i>		
6510 Janitor and Cleaning Payroll	82,445	86,372
6515 Exterminating Payroll/Contract	2,771	2,105
6525 Repairs - Material	25,579	21,925
6570 Repairs - Contract	79,050	44,955
6590 Miscellaneous	<u>368</u>	<u>7,490</u>
Total Operating and Maintenance Expenses	<u>190,213</u>	<u>162,847</u>

Continued on next page.

HULING COVE HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
EXPENSES (cont'd)		
<i>TAXES AND INSURANCE:</i>		
6719 Miscellaneous Taxes, Licenses and Permits	12,400	12,400
6720 Property and Liability Insurance	19,190	13,494
6723 Health Insurance and Other Employment Benefits	<u>28,797</u>	<u>28,063</u>
Total Taxes and Insurance	<u>60,387</u>	<u>53,957</u>
6820 Interest on Mortgages Payable	<u>112,086</u>	<u>119,586</u>
6600 Depreciation Expense	<u>94,101</u>	<u>94,101</u>
TOTAL EXPENSES	<u>612,956</u>	<u>562,236</u>
CHANGE IN NET ASSETS	(126,798)	(72,948)
NET DEFICIT, BEGINNING OF YEAR	<u>(815,570)</u>	<u>(742,622)</u>
NET DEFICIT, END OF YEAR	<u>\$ (942,368)</u>	<u>\$ (815,570)</u>

The accompanying notes are an integral part of these financial statements.

HULING COVE HOUSING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Rental receipts	\$ 195,535	\$ 189,946
Interest receipts	3,256	4,659
Housing assistance payments	287,592	288,611
Other receipts	<u>1,837</u>	<u>5,157</u>
	<u>488,220</u>	<u>488,373</u>
Administrative	(55,306)	(57,394)
Utilities	(98,818)	(80,455)
Operating and maintenance	(179,681)	(165,883)
Taxes and insurance	(60,387)	(53,957)
Interest on mortgages	<u>(112,736)</u>	<u>(120,183)</u>
	<u>(506,928)</u>	<u>(477,872)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(18,708)</u>	<u>10,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (Increase) in escrow deposits	<u>60,127</u>	<u>(24,929)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>60,127</u>	<u>(24,929)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	39,567	86,800
Mortgage principal payments	<u>(96,434)</u>	<u>(88,986)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(56,867)</u>	<u>(2,186)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,448)	(16,614)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21,606</u>	<u>38,220</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,158</u>	<u>\$ 21,606</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	<u>\$ (126,798)</u>	<u>\$ (72,948)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
OPERATING ACTIVITIES:		
Depreciation expense	94,101	94,101
Decrease (Increase) in accounts receivable	2,062	(915)
Decrease (Increase) in prepaid expenses	8,660	(8,660)
Increase (Decrease) in accounts payable	2,045	(6,104)
(Decrease) in interest payable	(650)	(597)
(Decrease) Increase in accrued payroll	(24)	219
Increase in accrued vacation and sick pay	<u>1,896</u>	<u>5,405</u>
Total Adjustments	<u>108,090</u>	<u>83,449</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (18,708)</u>	<u>\$ 10,501</u>

The accompanying notes are an integral part of these financial statements.

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE A ORGANIZATION

On March 16, 1978, Huling Cove Housing Corporation (the "Corporation") was created by filing a Certificate of Incorporation with the State of Delaware. The Corporation was organized to provide housing for low-income elderly households (which includes persons that are 62 years of age or older, handicapped or disabled) receiving assistance under the Section 8 program established by the 1974 Federal Housing and Community Development Act. It has developed a 24-unit residence located in Lewes, Delaware.

Effective July 1, 2003, Huling Cove Annex, Inc. was merged into Huling Cove Housing Corporation. The Annex was organized to provide housing for low-income elderly households (which includes persons that are 62 years of age or older, handicapped or disabled) receiving assistance under the Section 8 program established by the 1974 Federal Housing Community Development Act. It has developed a 41-unit residence located in Lewes, Delaware.

The Corporation's income is exempt under the provisions of Section 115 of the Internal Revenue Code.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting.

Fixed Assets

The Corporation follows the practice of capitalizing all expenditures for fixed assets in excess of \$15,000. The estimated useful lives are as follows:

Building	27 years
Equipment	5 years

Cash and Cash Equivalents

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments held by the Treasurer of the State of Delaware.

Investments held for the Corporation by the Treasurer of the State of Delaware are maintained in a common pool of funds for all participating state agencies and associated nonprofit associations. The pool is comprised of four categories of investments although a detailed accounting by category is not maintained for each depositor. Only the total invested for each depositor is made available on a periodic basis. The Corporation's funds are maintained in the following four pools:

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- (1) *Cash Account*
Objective - Liquidity
Maturity - Maximum maturity is one year.
- (2) *Liquidity Account*
Objective - Maximum yield and maintain safety of principal
Maturity - Maximum maturity is two years.
- (3) *Reserve Cash (Intermediate) Account*
Objective - Maximum yield and maintain safety of principal
Maturity - Maximum maturity is five years.
- (4) *Endowment Accounts*
Objective - To provide a long-term funding source
Maturity - Maximum maturity is 10 years.

The permissible types of investments for all these pools are as follows:

- U.S. Government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptance
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, the Corporation's cash and cash equivalents balance held with the State Treasurer's Office amounted to \$4,591 and \$317, respectively. Cash and cash equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The funds held by the State of Delaware Investment pool, an internal investment pool, are specifically identified for the Corporation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware.

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE C CASH AND CASH EQUIVALENTS (cont'd)

At June 30, 2007, the reported amount of the Corporation's deposits not held with the State Treasurer's Office was \$1,567 and the bank balance was \$1,567. At June 30, 2006, the reported amount of the Corporation's deposits not held with the State Treasurer's Office was \$21,289 and the bank balance was \$21,289. All of the balance was covered by federal depository insurance.

NOTE D LONG-TERM DEBT

On June 30, 2007, the Corporation has the following mortgages collateralized by the rental property.

- Mortgage note payable to the Delaware State Housing Authority in monthly installments of \$4,092, including interest at 11.75 percent through October 1, 2014.
- Mortgage note payable to the Delaware State Housing Authority in monthly installments of \$13,339, including interest at 7.15 percent through March 1, 2017.

Principal payments are due as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 104,541
2009	113,368
2010	122,984
2011	133,509
2012	144,891
Thereafter	<u>742,820</u>
TOTAL	1,362,113
Less current portion	<u>104,541</u>
Long-term portion	<u>\$1,257,572</u>

On December 30, 2004, the Corporation entered into a note payable agreement with the Delaware State Housing Authority in the amount of \$90,000. This note is noninterest bearing and may be forgiven by the Delaware State Housing Authority upon full satisfaction of the mortgage payables noted above. This note is collateralized by the rental property. In 2007 and 2006, the Corporation borrowed an additional \$39,567 and \$86,800, respectively, subject to the same terms noted above. The aggregate of the three loans is \$216,367 and \$176,800 as of June 30, 2007 and 2006, respectively.

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE E ESCROW DEPOSITS

In accordance with the regulatory agreement between Huling Cove Housing Corporation and the Delaware State Housing Authority (DSHA), certain escrow accounts must be maintained with DSHA. The escrows consisted of the following:

	June 30	
	<u>2007</u>	<u>2006</u>
Insurance	\$ 17,501	\$ 16,176
Taxes	67	12,467
Residual receipts	49,081	100,766
Replacement reserve	<u>5,704</u>	<u>3,071</u>
TOTAL	<u>\$ 72,353</u>	<u>\$ 132,480</u>

NOTE F FIXED ASSETS

As of June 30, 2007 and 2006, fixed assets consisted of the following:

	June 30	
	<u>2007</u>	<u>2006</u>
Land	\$ 127,000	\$ 127,000
Building	2,540,714	2,540,714
Equipment	24,905	24,905
Accumulated depreciation	<u>(2,085,929)</u>	<u>(1,991,828)</u>
TOTAL	<u>\$ 606,690</u>	<u>\$ 700,791</u>

NOTE G RENTAL ASSISTANCE

The Corporation entered into a contract for Section 8 Housing Assistance Payments with the U.S. Department of Housing and Urban Development (HUD). Under the terms of this contract, HUD will disburse to the Corporation rental assistance payments on behalf of qualified tenants. Under the regulatory agreement, the Corporation may not increase rents charged to tenants without HUD approval.

NOTE H PENSION PLAN

The Delaware State Housing Authority maintains a contributory retirement plan, covering substantially all of its employees, which is a defined contribution pension plan. The Corporation's contribution to the plan was \$5,219 and \$6,306 for the years ended June 30, 2007 and 2006, respectively, equal to the required contribution to the plan.

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE I RELATED PARTY TRANSACTIONS

During the years ended June 30, 2007 and 2006, the Corporation was obligated under an agreement with the Delaware State Housing Authority for the management of its housing projects. Management fees of \$37,008 were paid to DSHA for each of the years ended June 30, 2007 and 2006.

Huling Cove Housing Corporation is closely associated with, and related to, the Delaware State Housing Authority.

The Delaware State Housing Authority (the "Authority") was created in 1968 by an act of the General Assembly of the State of Delaware (the "State"). The Authority, which is a public corporation, was originally established as the Department of Housing. It was organized under the Department of Community Affairs in 1970 and under the Delaware Economic Development Office in 1987. The Authority was established in 1998 as an Independent Authority in the Executive Department, reporting directly to the Governor of the State, institutionalizing the role of affordable housing as a key aspect of State policy.

The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal government and others.

The staff of the Delaware State Housing Authority performs all management and accounting functions for Huling Cove Housing Corporation. The general ledger and financial statements of Huling Cove Housing Corporation are maintained and prepared by the Delaware State Housing Authority, using a computer system that also performs these functions for other housing corporations.

NOTE J CONCENTRATION OF REVENUE

Approximately 60 percent of Huling Cove Housing Corporation's combined revenues for the years ended June 30, 2007 and 2006 is provided by Section 8 Housing Assistance Payments from the U.S. Department of Housing and Urban Development passed through the Delaware State Housing Authority.

SUPPLEMENTAL INFORMATION

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2007

RESERVE FOR REPLACEMENTS

In accordance with the regulatory agreement, a monthly payment is required to fund reserve for replacements. This payment is made in cash and is on deposit with the Delaware State Housing Authority, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	\$ 3,071
Interest Income	105
Monthly Deposits	20,010
DSHA Approved Disbursements	<u>(17,482)</u>
ENDING BALANCE CASH	<u>\$ 5,704</u>

RESIDUAL RECEIPTS RESERVE

The mortgagee, Delaware State Housing Authority, has periodically made deposits and disbursements to and from the reserve on behalf of the project. Transactions are as follows:

BEGINNING BALANCE	\$ 100,766
Interest Income	2,852
Deposits	9,567
DSHA Approved Disbursements	<u>94,104</u>
ENDING BALANCE CASH	<u>\$ 49,081</u>

INSURANCE ESCROW

In accordance with the regulatory agreement, a monthly payment is required to fund an insurance reserve. This payment is made in cash and is on deposit with the Delaware State Housing Authority, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	\$ 16,176
Interest Income	-
Monthly deposits	15,600
DSHA Approved Disbursements	<u>(14,275)</u>
ENDING BALANCE CASH	<u>\$ 17,501</u>

HULING COVE HOUSING CORPORATION
 SUPPLEMENTAL INFORMATION
 ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2007

TAX ESCROW

In accordance with the regulatory agreement, a reserve for taxes has been established and is on deposit with Delaware State Housing Authority. Transactions are as follows:

BEGINNING BALANCE	\$ 12,467
Interest Income	-
Deposits	-
DSHA Approved Disbursements	<u>(12,400)</u>
ENDING BALANCE CASH	<u>\$ 67</u>

FIXED ASSETS

	Balance <u>July 1, 2006</u>	Additions (Deletions) <u>During Year</u>	Balance <u>June 30, 2007</u>
CHANGES IN PROPERTY AND EQUIPMENT:			
Land	\$ 127,000	\$ -	\$ 127,000
Building	2,540,714	-	2,540,714
Equipment	24,905	-	24,905
Accumulated depreciation	<u>(1,991,828)</u>	<u>94,101</u>	<u>(2,085,929)</u>
TOTALS	<u>\$ 700,791</u>	<u>\$ 94,101</u>	<u>\$ 606,690</u>

DELINQUENT TENANT ACCOUNTS RECEIVABLE

Delinquent 0 -30 days	<u>\$ 471</u>
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SUMMARIZED ACCOUNTS PAYABLE

Payable within 30 days	<u>\$ 14,343</u>
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HULING COVE HOUSING CORPORATION

SUPPLEMENTAL INFORMATION
ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2007

LONG-TERM DEBT

On June 30, 2007, the Corporation has the following mortgages collateralized by the rental property.

- Mortgage note payable to the Delaware State Housing Authority in monthly installments of \$4,092, including interest at 11.75 percent through October 1, 2014.
- Mortgage note payable to the Delaware State Housing Authority in monthly installments of \$13,339, including interest at 7.15 percent through March 1, 2017.

The combined amount outstanding at June 30, 2007 was \$1,362,113.

On December 30, 2004, the Corporation entered into a note payable agreement with the Delaware State Housing Authority in the amount of \$90,000. This note is non-interest bearing and may be forgiven by the Delaware State Housing Authority upon full satisfaction of the mortgage payables noted above. This note is collateralized by the rental property. In 2006 and 2007 the corporation borrowed an additional \$86,800 and \$39,567 respectively, subject to the same terms noted above. The aggregate of the three loans is \$216,367 as of June 30, 2007.

ADDITIONAL INFORMATION REQUIRED

Barbacane, Thornton & Company, 202 Bancroft Building, 3411 Silverside Road, Wilmington, DE 19810

Pamela W. Baker, CPA, Partner (302) 478-8940

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY
**COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND
RESIDUAL RECEIPTS**

PROJECT NAME Huling Cove Housing Corp.	FISCAL PERIOD ENDED: 06 / 30 / 07	PROJECT NUMBER DE26H004010 DE26H00435
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PART A - COMPUTE SURPLUS CASH

CASH	1. Cash (Accounts 1110, 1120, 1191, 1192)	\$ 26,850.58		
	2. Tenant subsidy vouchers due for period covered by financial statement	\$ -		
	3. Other (describe)	\$ -		
	(a) Total Cash (Add Lines 1, 2, and 3)			\$ 26,850.58
CURRENT OBLIGATIONS	4. Accrued mortgage interest payable	\$ 9,038.20		
	5. Delinquent mortgage principal payments	\$ -		
	6. Delinquent deposits to reserve for replacements	\$ -		
	7. Accounts payable (due within 30 days)	\$ 14,343.19		
	8. Loans and notes payable -- (due within 30 days)	\$ 8,392.59		
	9. Deficient Tax Insurance or MIP Escrow Deposits	\$ -		
	10. Accrued expenses (not escrowed)	\$ 3,716.23		
	11. Prepaid Rents (Account 2210)	\$ -		
	12. Tenant security deposits liability (Account 2191)	\$ 20,692.97		
	13. Other (Describe)	\$ -		
	(b) Less Total Current Obligations (Add Lines 4 through 13)			\$ 56,183.18
	(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))			\$ (29,332.60)

PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS

LIMITED DIVIDEND PROJECTS	1. Surplus Cash		\$ -0-	
		2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$ -	
		2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$ -	
		2c. Distributions Paid During Fiscal Period Covered by Statement	\$ -	
		3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$ -	
4. Amount Available for Distribution During Next Fiscal Period		\$ -0-		
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)		\$ -0-		

PREPARED BY		REVIEWED BY	
LOAN TECHNICIAN <i>Cheryl F. Lehman</i>		LOAN SERVICES <i>Douglas A. Craft</i>	
DATE 9/14/07		DATE 9/17/07	

(See Reverse for Instructions)

HUD-93486 (12-80)

HULING COVE HOUSING CORPORATION
COMPARISON OF BUDGET TO ACTUAL SCHEDULE
Year Ended June 30, 2007

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Rent Revenue	\$ 489,456	\$ 496,616	\$ 7,160
Vacancies	(7,324)	(15,551)	(8,227)
Investment Income	982	3,256	2,274
Tenant charges	4,700	1,837	(2,863)
Total revenues	<u>487,814</u>	<u>486,158</u>	<u>(1,656)</u>
EXPENSES			
Advertising	500	310	(190)
Management Fees	37,450	37,008	(442)
Legal Expense	100		(100)
Audit Expense	5,835	6,710	875
Telephone and Answering Service	3,794	3,290	(504)
Miscellaneous	8,760	9,070	310
Bad Debts	-	963	963
Electricity	69,000	76,759	7,759
Water	24,602	22,059	(2,543)
Payroll	84,486	82,445	(2,041)
Exterminating	2,420	2,771	351
Repairs - Material	9,000	25,579	16,579
Repairs - Contract	22,815	79,050	56,235
Miscellaneous	2,400	368	(2,032)
Miscellaneous Taxes, Licenses and Permits	12,400	12,400	-
Property and Liability Insurance	14,168	19,190	5,022
Health Insurance and Other			
Employment Benefits	32,267	28,797	(3,470)
Interest on Mortgage Payable	112,086	112,086	-
Depreciation Expense	-	94,101	94,101
Total expenses	<u>442,083</u>	<u>612,956</u>	<u>170,873</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 45,731</u>	<u>\$ (126,798)</u>	<u>\$ (172,529)</u>

IX. AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST

Property Name Huling Cove Housing Corporation	Fiscal Period Ending June 30, 2007	DSHA/HDF Number DE26H004010 and DE26H00435
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Please answer the questions below. All answers should be based upon a review of procedures and/or actual test transactions. Any question answered "no" may indicate of an adverse condition which should be described in the audit report.

		Yes, No or N/A
1.	<u>Mortgage Status</u>	
	A. Are payments on the mortgage(s) current?	<u>Yes</u>
	B. Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?	<u>Yes</u>
	C. If the workout agreement, Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	<u>N/A</u>
2.	<u>Books and Records</u>	
	A. Are a completed set of books and records maintained in a satisfactory manner?	<u>Yes</u>
	B. Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?	<u>Yes</u>
3	<u>Cash Activities</u>	
	A. Are the cash receipts deposited in an account in the name of the development/program?	<u>Yes</u>
	B. Are all account balances fully federally insured?	<u>Yes</u>
	C. Are security deposits kept in an account separate and apart from all other funds of the development?	<u>Yes</u>
	D. Are security deposits kept in an interest bearing account and is the interest returned to the tenant or applied to a tenant balance?	<u>Yes</u>
	E. Does the balance in the security deposit account equal or exceed the liability? Note: The liability difference should include the accrued interest payable.	<u>Yes</u>
		Yes, No or N/A
	F. Does the owner and/or the management agent have a fidelity bond in an amount at least equal to potential collections for two months which provides coverage for all employees handling cash?	<u>Yes</u>

G. Did cash disbursements exclude payments for items listed below:

- | | |
|--|------------|
| (1) Legal expenses incurred in the sale of partnership interest or in connection with permanent closing? | <u>Yes</u> |
| (2) The fee for the preparation of a partner's , shareholder's or individual's federal, state or local income tax returns? | <u>Yes</u> |
| (3) Expenses for advice to an owner on tax consequences of foreclosure? | <u>Yes</u> |
| (4) Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements? | <u>Yes</u> |
| (5) Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development? | <u>Yes</u> |
| (6) Were letter of credit fees paid for out of operations or obligations of the development? | <u>Yes</u> |

H. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of DSHA while the development was in a surplus cash position?	<u>N/A</u>
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- | | |
|---|------------|
| (1) Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a "surplus cash" position for distributions. | <u>N/A</u> |
|---|------------|

I. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request for such deposit? (HUD Section 8/202/236 projects only)	<u>N/A</u>
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Yes, No
or N/A

J. Were excess rental collections in Section 236 developments remitted to HUD each month?	<u>N/A</u>
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K. Does the mortgagor/grantee have a formal rent collection policy and is it posted?	<u>Yes</u>
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L. Is the collection policy uniformly enforced?	<u>Yes</u>
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M. Do tenants' accounts receivables consist exclusively of amounts due from those other than employees?	<u>Yes</u>
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- N. Is there a formal procedure to write-off bad debts? Yes
- O. Have write-offs of tenant's accounts been less than one percent of the gross rent? Yes
- P. Are accounts receivables other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms? N/A
- Q. Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc? No
- R. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties? Yes
- S. Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents? Yes

4. **Management Compensation**

- A. Was compensation to the management agent limited to the amounts prescribed in the Management Agreement? Yes
- B. Were development expenses paid in accordance with the management agreement (no expenses that management agent are required to pay charged to the development)? Yes

5. **Rents and Occupancy**

- A. On nonsubsidized tax credit developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule? N/A
- B. On subsidized developments, are dwelling unit rents the same as those approved by DSHA/ HUD/RD on the most recent rent schedule? Yes
- Yes, No
or N/A

6. **RD/HUD Subsidy Payments (Section 8/515 developments only)**

- A. Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records? N/A
- B. Were subsidy receipts recorded in the proper accounts? N/A
- C. Utility allowance payments were paid to residents within five days of receipt from DSHA/HUD/RD and in an amount equal to the corresponding utility allowance subsidy amounts received? N/A

ADDITIONAL REPORTS

Dover, Delaware
800.355.8210
Media, Pennsylvania
610.565.5222

INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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www.btcpa.com
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September 18, 2007

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

We have audited the financial statements of Huling Cove Housing Corporation as of and for the year ended June 30, 2007 and have issued our report thereon dated September 18, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huling Cove Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Huling Cove Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Huling Cove Housing Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Huling Cove Housing Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Huling Cove Housing Corporation's financial statements that is more than inconsequential will not be prevented or detected by Huling Cove Housing Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Huling Cove Housing Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huling Cove Housing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the U.S. Department of Housing and Urban Development, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget and Office of Auditor of Accounts; and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY